



The State of California's Housing Market: February 2012 Update

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Supply and Affordability Problems

- **Housing market, along with demographic drivers, affected by:**
 - Recessionary conditions
 - Foreclosure environment
 - Financial system restructuring
 - Land use regulations

- **Improved affordability due to housing price declines undercut by:**
 - Economic uncertainty
 - High unemployment
 - Difficulty in borrowing

- **California still lacks housing supply that is adequately . . .**
 - Accommodating all segments of our population
 - Expandable in high demand locations
 - Affordable and available to lower income households
 - Affordable to and convenient to the workforce
 - Affordable to special needs populations



Housing Market Critical to Economic Rebound

- **Ben Bernanke, Chairman Federal Reserve** – Resolving the housing crisis is central to the US economy.
- **Center for Strategic Economic Research** – New housing construction contributes over \$13.8 billion per year to California economy and supports nearly 77,000 jobs statewide on an annual basis.
- **Center for Housing Policy** – Building affordable housing creates jobs and spending, both during construction and consumer's home purchasing
- **Public Policy Institute of California** – California's economic performance and livability depend on its housing market.

Warren Buffet – "...We will come back big time on employment when housing construction comes back."

July 2011, Associated Press



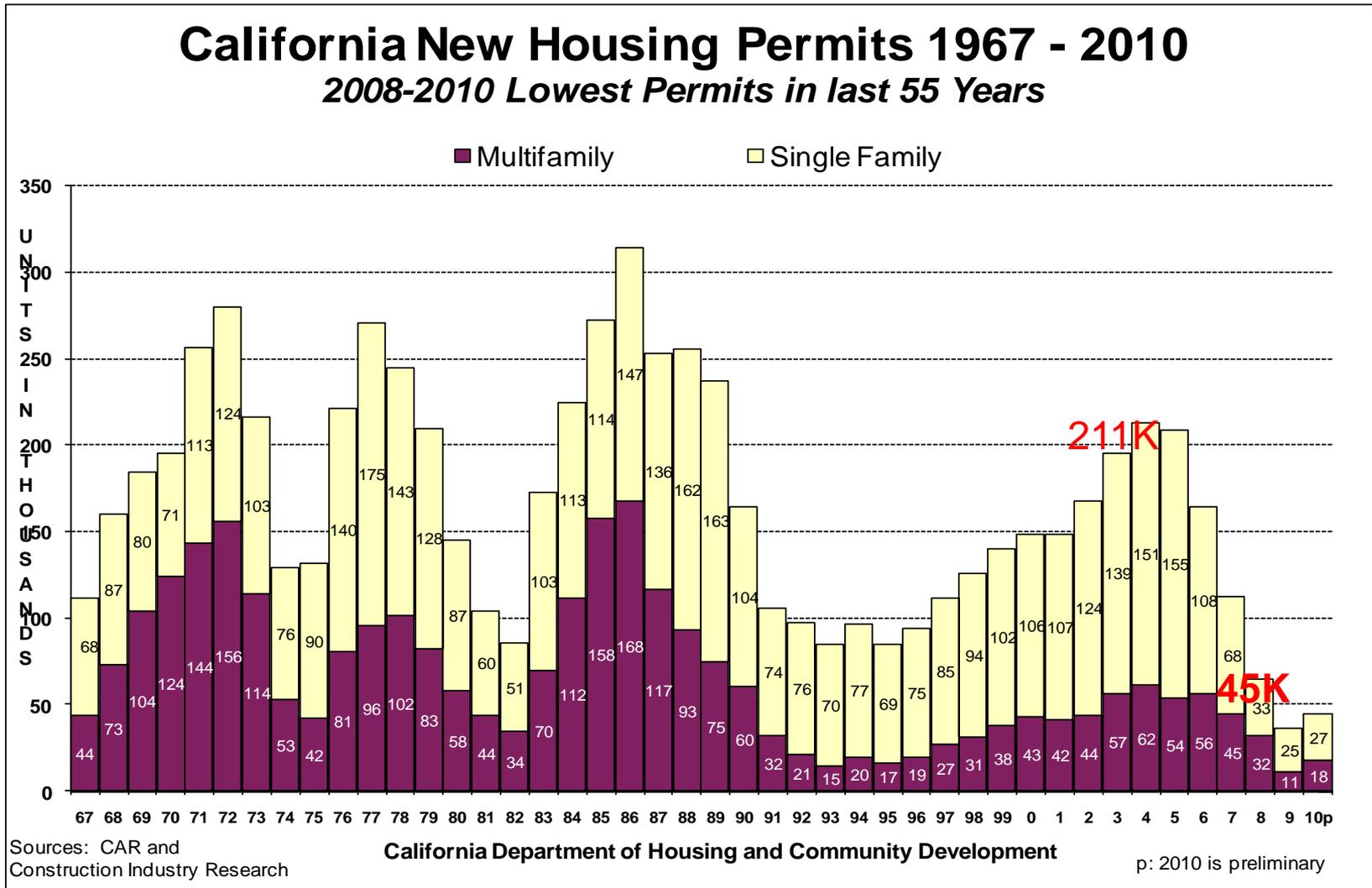
Land Use Policy Critical to Housing Rebound

- Mixed-use, redevelopment projects and infill development demand flexible and expeditious regulatory process
- Affordable housing w/transit-dependent HHs taps potential traffic-reduction/GHG reduction benefits of transit-oriented development
- Certainty in the entitlement process important, along with encouraging innovation and adaptation in the housing market
- Cost implications important
- Planning for transit and job accessibility critical

Legislative Analyst's Office: "The end of redevelopment agencies earlier this year represented a major change in California finance. . . *Local governments interested in promoting economic development and affordable housing could (also) explore regulatory approaches to achieving their goals. . .*"

The 2012-13 Budget: Unwinding Redevelopment, Feb. 17, 2012

Housing Construction at Record Lows

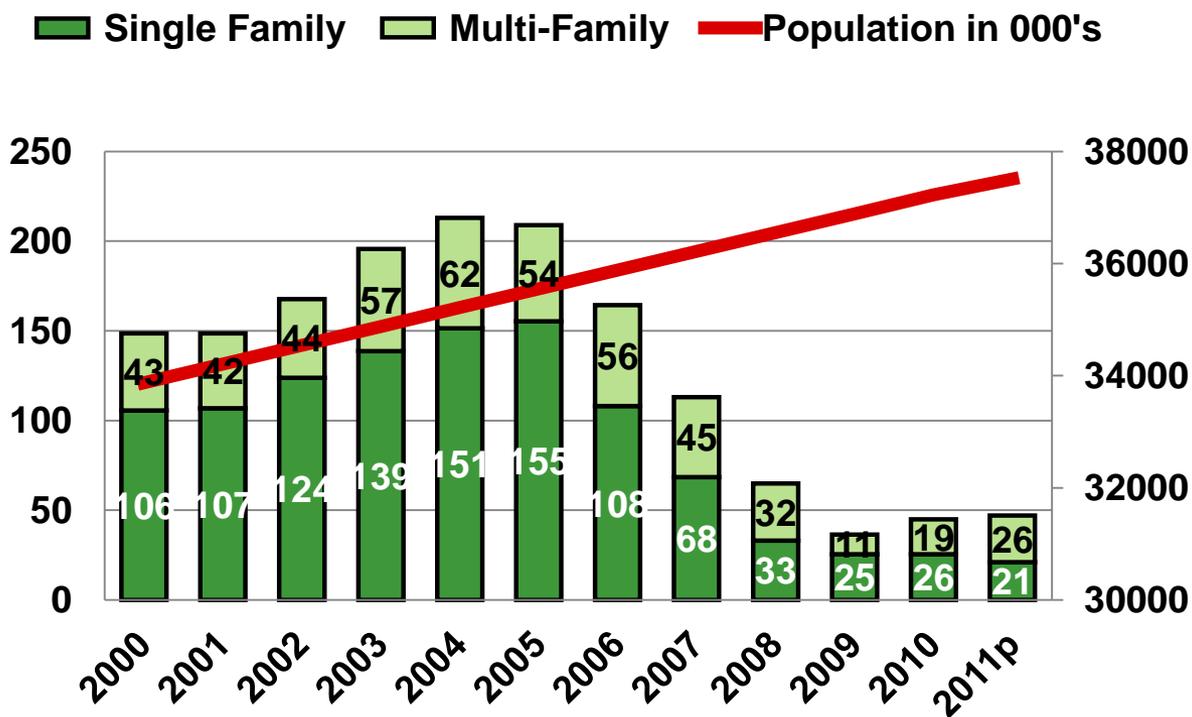




Steady Population Growth during Housing Construction Downturn => Pent-Up Demand

<u>Year</u>	<u>Permits</u>
2000 –	148,500
2004 –	212,900
2009 –	36,400
2010 –	44,800
2011 –	47,000
2012f-	57,000

California Population Growth & New Housing Permits 2000 - 2011



Source: Construction Industry Research Board, California Construction Review, Burbank, November 22, 2011



Housing Slow to Rebound

Single Family

- 2011, 4th Qtr. median sale price \$285,920, up 1.8% from Nov. 2011, but down 6.2% from 2010
- 2011 sales for detached units exceeded 2010 by 1.1%
- Distressed sales exceeded equity sales toward 2011 yr-end
- Record low interest rates and improving consumer confidence strengthened yr-end sales
- Some brighter spots – San Diego has seen higher SF activity

Multifamily

- 2005: 26% of permits were MF vs. 2011: 55% of permits were MF
- 2012 forecast: 31,600 MF permits, 55% of total permits (of only 57K total)
- Relatively robust multifamily construction for the next few years forecast for some major metros, e.g. Los Angeles County



Housing Slow to Rebound

MEANWHILE...

MF construction likely to outpace single family construction in major metropolitan areas while single family sector yet rebounding

Lack of adequate financing may impede robust recovery of multifamily

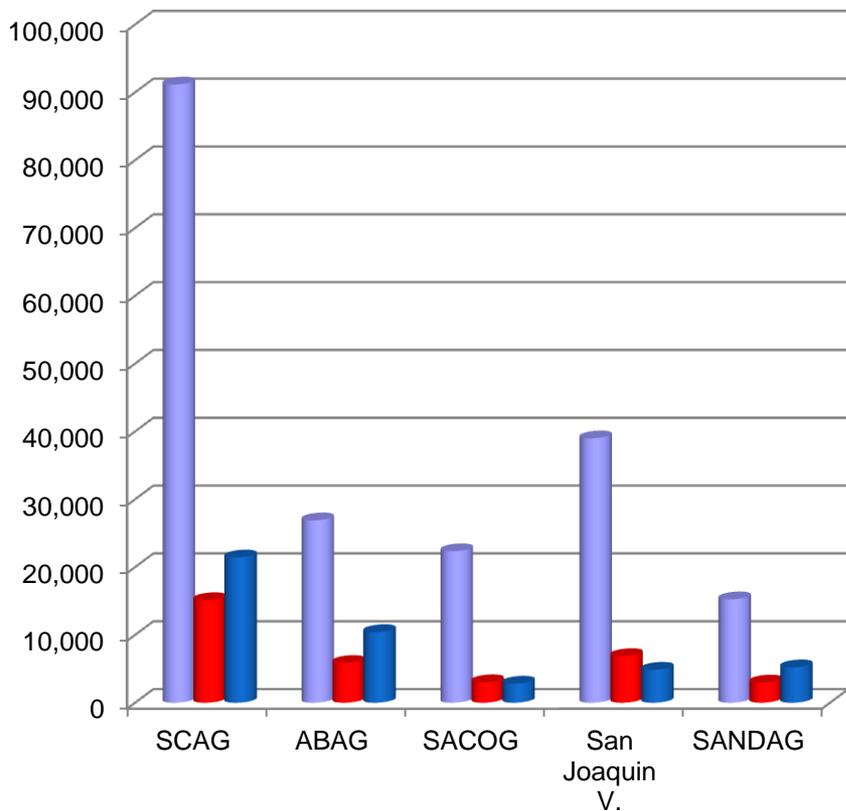
- **Redevelopment financing eliminated**
- **Prop 46 and 1C Bonds near depletion**
- **Shrinking federal resources, including curtailed operation of GSEs Fannie Mae & Freddie Mac**

Effects of these subsidies will be influential for 2-3 years, but will likely diminish by 2015 without successor subsidy sources

Multiple barriers to MF infill development yet to be overcome

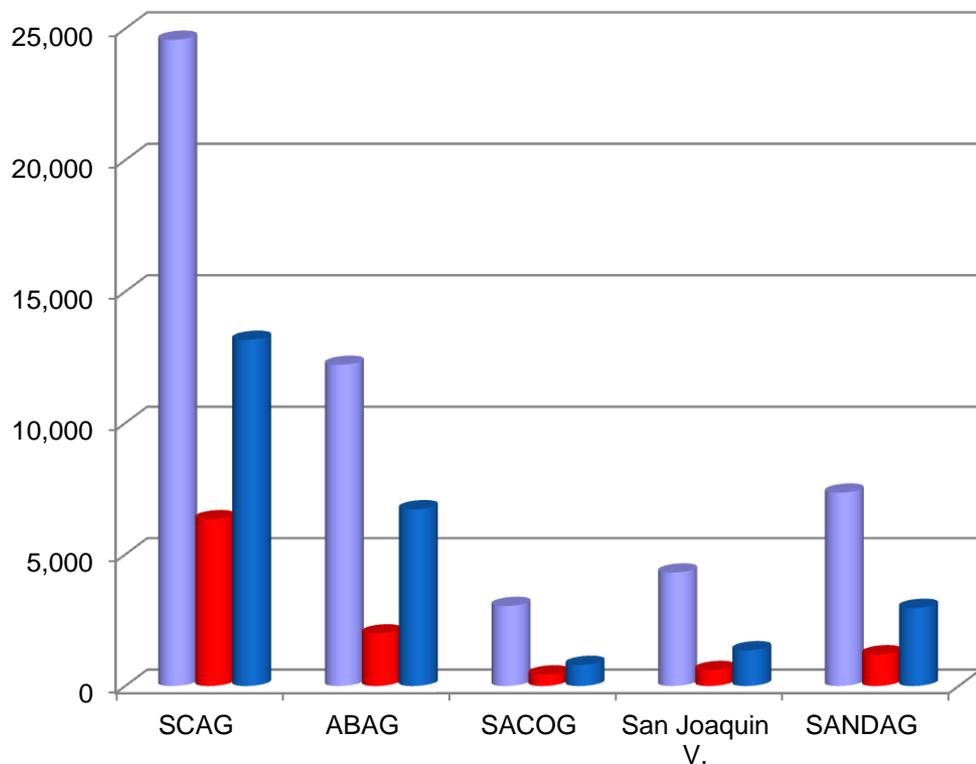
2005-2009-2011 Residential Permits By Region

Total Permits



Multifamily Permits

■ 2005 ■ 2009 ■ 2011



MF permits for 2011 & forecast for 2012, at 50% of total 2005 MF statewide

(Source: CIRB)



Foreclosed units do not eliminate the need for more housing

- Not immediately available for occupancy (*lengthy processes*)
- Banks holding homes off the market
- Displaced households must relocate, most often in rental units, or with family or friends in shared quarters “doubling up” and overcrowding
- Potential for portions of SF REO inventories to be converted to rentals in selected markets (*Ben Bernanke, U.S. Federal Reserve, February 2012*)

Steady and diverse population growth

Avg. Growth/Yr. 2000-2010: 340,000

Projected steady growth to 2020

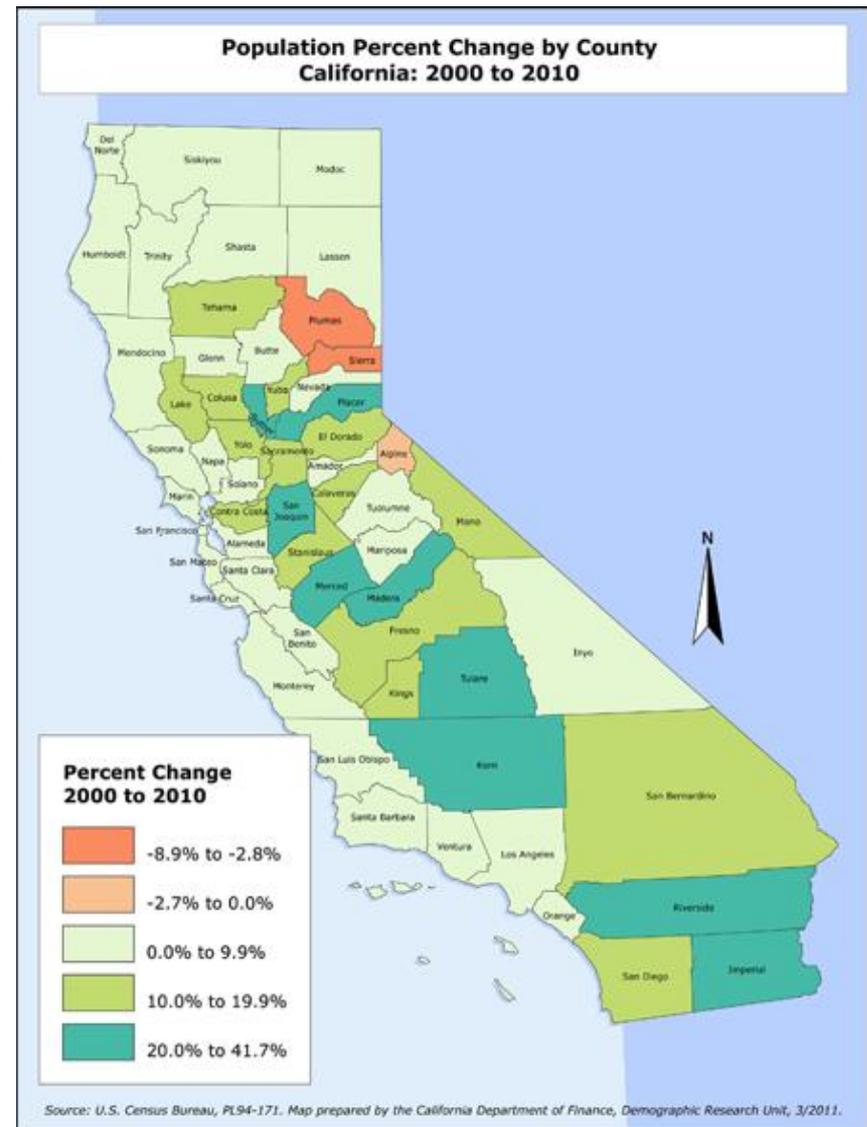
Inland population growth rates higher

Population growing more diverse

Total population growth: 10%

Hispanic growth: 28%

Asian pop growth: 31%





Demographic trends driving housing demand

Aging Baby Boomer Generation (age 55+)

- Unprecedented in size
- Will dominate the housing market to 2030
- Highest housing demand per 1,000 people
- 75% want to live in mixed-use, urban setting (*RCLCO*)
- Strong demand for active living, near transit/services

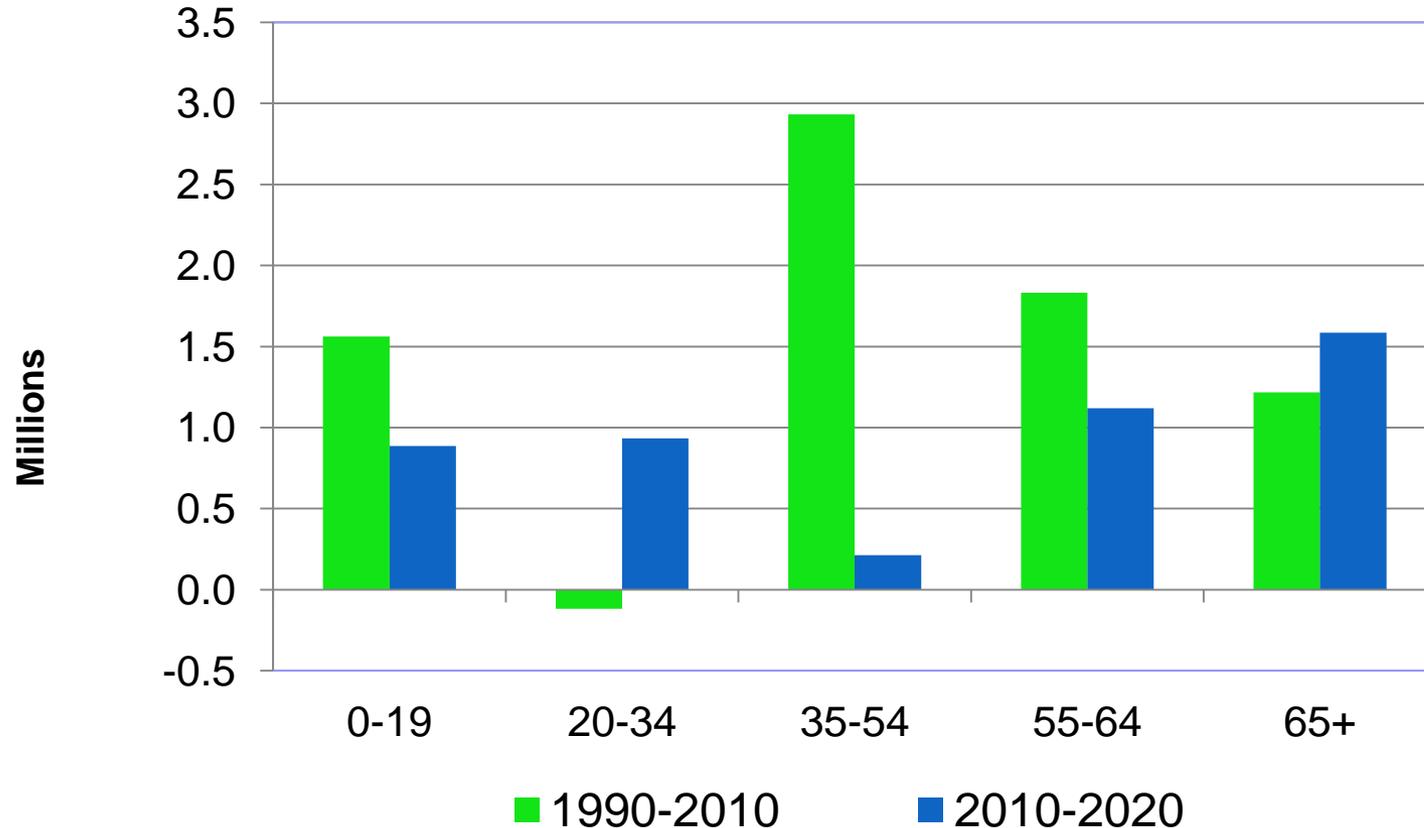
Baby-Bust Generation (age 25-34)

- More diverse
- Entering household formation years
- 77% want to live in urban core, smaller spaces (*RCLCO*)
- Strong demand for rentals, smaller starter homes

Strong housing demand for all life stages, all incomes, all households sizes and types (CA share of aging population not as large as many others)

Age Composition and Housing Demand

1990-2010-2020 Changing Housing Demand



Source: S. Levy, *California's Changing Demography: Implications for Housing Presentation*, May 2011, USC



Affordability: Ownership

- Improved for some first time-homebuyers w/good credit
- PPIC 2011: 2.1 M out of 6.8 M mortgaged homeowners “underwater”
- State Attorney General: 250,000 “underwater” homeowners to be assisted with the \$18 billion CA mortgage settlement

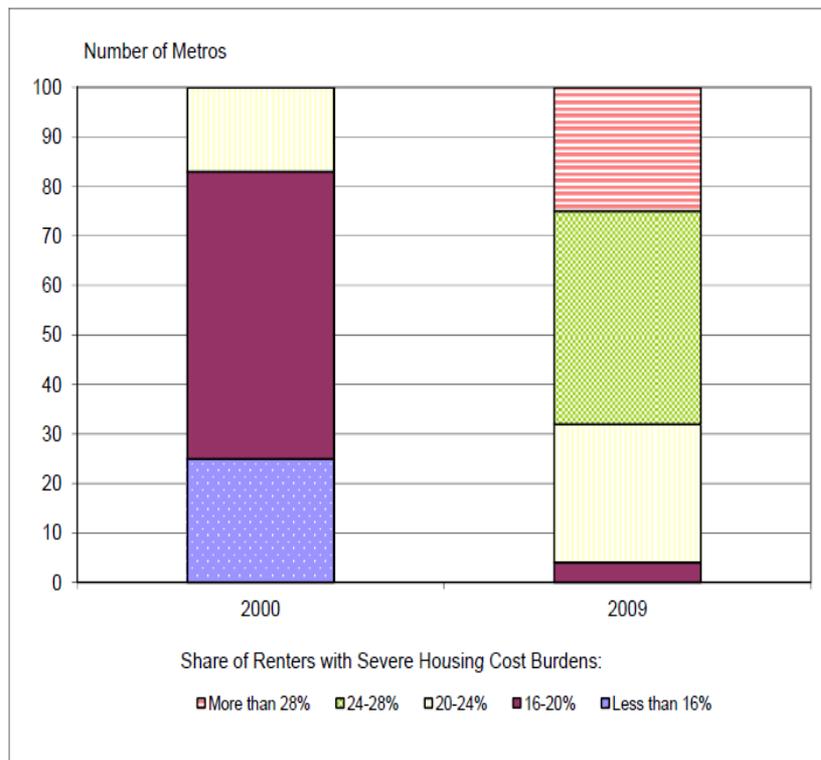
HOWEVER...

- Statewide median price almost twice as high as the national median
- Remains OUT OF REACH for many lower-income families, workers, due to:
 - unemployment – 10.9% in December 2011
 - lack of available financing (e.g. redevelopment low-mod fund)
 - persistent tightening of lending standards, even for creditworthy
 - concerns about home price volatility
 - income uncertainty, dampening even major repairs/renovation

Affordability: Renters

- Unlike housing prices, typical rents were higher in 2011 than in 2006 in nearly all metropolitan areas
- Rental vacancy declined from 7.6% in 2009, to 6.1 % in 2011
- Not all affordable rental units are available to lower-income HHss
- One-in-two renters pay more than 30% of their income; one-in-four pay more than 50% of income
- HUD: Housing needs of low-income renters rose by 20% 2007- 2009; only 1/4 receive assistance
- 2011: a min. wage renter had to work more than 3 full-time jobs to afford a 2-bedroom apartment

US Metro Areas 2000 - 2009: Sharp Increases in Severe Housing Cost Burdens of Renters

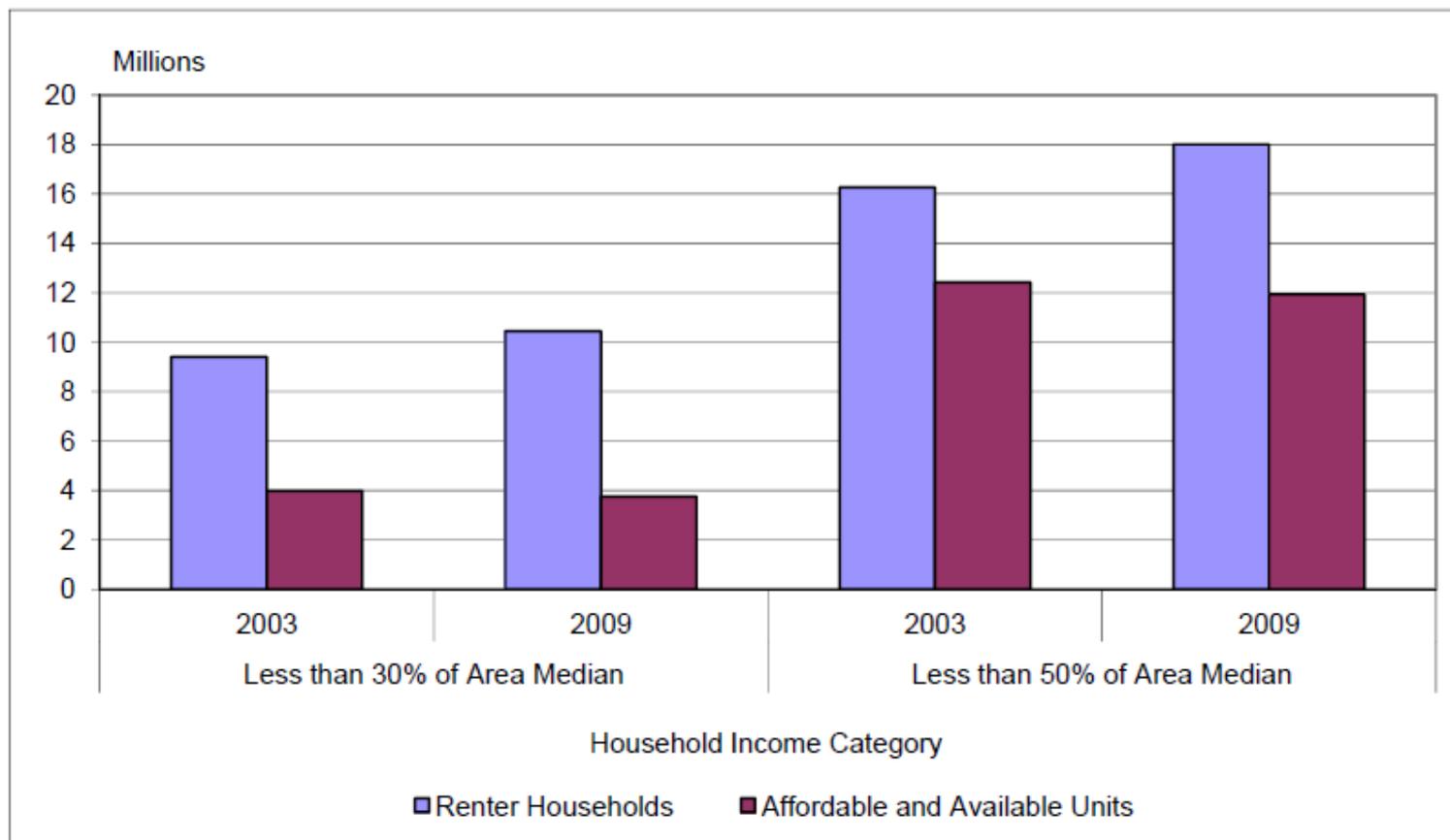


Source: Harvard Joint Center for Housing Studies, 2011



Affordability: Renter

**U.S. 2003–2009:
Low Income Renters Increased, Availability of Affordable Units Shrank**



Source: Harvard's Joint Center for Housing Studies, 2011

Overcrowding, Doubling-Up

Overcrowding

2009

- 1 million overcrowded HHs
- 73% of overcrowded were renters
- 50% of overcrowded HHs, were severely overcrowded renters

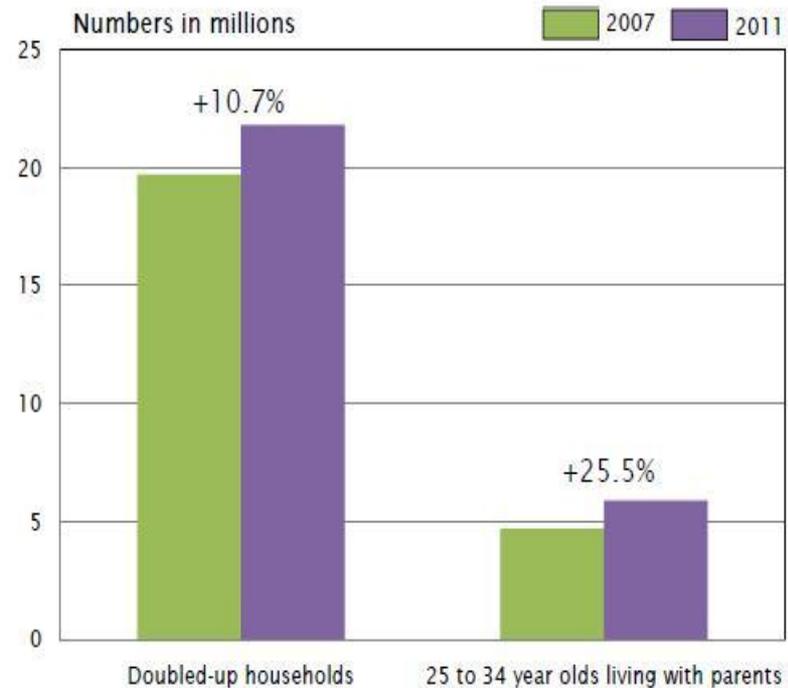
2010

- 1.1 million overcrowded HHs
- 73% of overcrowded were renters
- 4 in 5 severely overcrowded were renters

Doubling-up Households

- 2007- 19.7 million or 17%
- 2010- 22 million, 18.7%
- 2011- 21.8 million or 18%

Evidence of “Doubling Up” in Response to the Economic Downturn: 2007 Compared to 2011



Notes: A household is counted as “doubled-up” if it includes at least one “additional” adult, a person aged 18 or older who is not enrolled in school and is not the householder, spouse, or cohabiting partner of the householder. While the CPS ASEC estimates poverty and income for the previous calendar year, household composition is measured at the time of the survey.

Source: U.S. Census Bureau, Current Population Survey, 2007 and 2011 Annual Social and Economic Supplements.

Affordable Infill Housing & GHG

- Compact/affordable infill development patterns reduce the need to drive, making walking, biking, and using mass transit easier. Active transportation enables lower VMT, less fuel consumption, and lower GHG emissions and air pollution.
- Lower income households and renters least likely to own private vehicles; most likely to use transit
- SB 375's RTP/SCS GHG reduction strategies incorporating TOD without affordability provisions risk driving up land costs & displacement risk
- Need to mitigate impacts that risk disproportionately impacting low income communities





Influential Housing & Affordability Factors

- Persistent **high unemployment** limiting income gains
- **Chronic supply deficit** in high cost urbanized coastal metro areas
- Record **lows in housing construction**
- Housing deficit not filled by **foreclosed units**; affordability improved, yet **out of reach** for many
- **Lack adequate mix of housing** re: varied demand
- High **regulatory barriers**
- Growing **unmet need** for affordable rental housing
- Diminishing **affordable housing & infrastructure funding**



Aggressive action needed to increase supply & affordability of housing in the right places:

critical to supporting California's competitive economic edge and its leadership role in addressing climate change and environmental quality, while adequately housing workers and families

Questions?

Contact HCD's Housing Policy Division

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